
Budget at a Glance

The Budget Process

The City of Renton develops its budget every year from February through September. In each odd-numbered year, the City develops a two-year budget which includes a Forecast year. The Forecast year is not adopted. The Mayor and the Council review the City's revenues and services in order to determine if they need to make significant changes to the budget.

In reviewing the anticipated revenue, the Mayor's first priority is to ensure that the City is able to continue providing the same levels of service. This may require obtaining additional funds because the same service level now costs more. For example, as our population increases, we need more police officers to maintain the same response times.

City departments estimate the costs of providing existing base services for the budget year. In addition, they submit requests for new programs that they would like the Mayor to consider. The Mayor evaluates the department requests and can recommend new programs for Council approval within the context of the Council's adopted Business Plan Goals.

The Mayor and the Council hold a strategic planning retreat in the spring of each year in order to adopt these Business Plan Goals. At that time, the Council sets policy direction and priorities for the next budget cycle. They also determine whether the City's current levels of service are meeting the needs of our community.

The Mayor must provide to the Council by October 31 a proposed budget for the following year. The Mayor also provides them with an estimate of expected revenue in order to meet the costs of providing City services. The Council reviews the budget and any revisions in November and December. It must approve a balanced budget for all City expenditures by the beginning of the budget year, which is January for the City of Renton. In order to obtain citizen opinion about proposed expenditures, the City holds two public budget hearings.

Once the Council adopts the budget, the Mayor must ensure that expenditures are made within legal limits. If the economy changes or the City identifies unanticipated needs during the year that require changing the budget, the Mayor will recommend those changes. A Council-adopted ordinance must accompany all budget increases. If revenues fall short, the Mayor can make decreases to the budget to ensure that the City does not overspend available resources. The Mayor will work closely with the Council whenever changes to the budget must be made.

Basis of Accounting

Whichever basis of accounting that the City chooses to use will determine when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. All our governmental bodies account for funds by using the modified accrual basis of accounting. These governments recognize their revenue when they become measurable and available, and they generally recognize their expenditures when they incur the related fund liability. However, all proprietary funds and pension trust funds are accounted for using the accrual basis of accounting. Under this basis of accounting, the revenue is recognized when it is earned, and the expenses are recognized when they are incurred.

Table 2-1. Schedule of the Budget Process

Description	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Jan
The budget process and time limits are established by State law. The City of Renton adheres to the following procedures.												
1. The Mayor, Council, and staff meet to set priorities (Council/staff retreat).	➤											
2. Council Committee of the Whole adopts the Business Plan Goals and Strategies.		➤										
3. Budget instructions, salary and benefit computations, and forms are prepared and distributed to departments on or before July 1.				➤	➤							
4. Six-year Transportation Capital Improvement Program and associated budget adjustments are adopted by Council, by Resolution.					➤							
5. Departments prepare and submit new operating programs, positions and reclassifications, and six-year capital improvements.						➤	➤					
6. Departments prepare line item (baseline) budget requests and submit to Finance by the second week of August.												
7. Baseline budget requests, revenue assumptions, new programs, and capital improvement requests are compiled into a document for the Mayor's review in September.								➤				
8. The Mayor reviews budget requests with each department during the first two weeks in September, with decisions made by the end of September.								➤				
9. The property tax levy is established by ordinance the first Monday in October, or when available.									➤			
10. The Mayor's Preliminary Budget is prepared and filed with the City Clerk by the first working day in November; available for public review.									➤			
11. The City Clerk publishes a notice of filing the preliminary budget, and designates the date, time, and place of the public hearing on the final budget.										➤		
12. Council Committee of the Whole conducts budget hearings with department heads during the month of November. The hearings are open to the public.										➤		
13. The final hearing on the proposed budget must begin on or before the first Monday of December and may continue until the 25th day prior to the next fiscal year.											➤	
14. Year-end budget adjustments for the current budget year are presented to the Council for adoption by ordinance.											➤	
15. The City Council approves amendments to the proposed budget and, following the public hearing, adopts a final balanced budget, by ordinance, prior to January 1.											➤	
16. The final budget as adopted is published, distributed, and made available to the public during the first three months of the ensuing year.												➤

Financial Structure

The City's budget comprises seven major fund types or groups. The following is a general overview of each fund type.

General Governmental Funds

These funds are used to account for resources that are generally not dedicated for a specific purpose. They are used to meet the basic services that your local government provides.

Major Revenues	Primary Services
• Taxes	• Police protection
• Fees, licenses, and permits	• Fire protection/emergency medical services
• Fines and forfeitures	• Parks and recreation
• Intergovernmental (Federal, State)	• Municipal Court/legal services
	• Library services
	• Street maintenance/planning
	• Economic development/planning
	• Administrative functions

Special Revenue Funds

These funds are used to account for revenues that are to be used for a specific purpose as required by law or administrative action.

Major Revenues	Primary Services
• State and Federal grants	• Economic development
• Taxes	• Cable communications
	• Street overlay
	• Art fund

Debt Service Funds

These funds are used to account for the accumulation of dedicated revenue and payment of principal and interest related to the City's general obligation bond issues.

Major Revenues	Primary Services
• Property tax levies	• Payment of principal and interest on outstanding bonds
• Real estate excise tax	
• Special assessments	

Capital Improvement Funds

These funds are used to account for the acquisition and construction of major capital facilities and equipment. All projects supported by these funds can be found in the 2002-2007 City of Renton Capital Improvement Program.

Major Revenues	Primary Services
• Federal and State grants	• Capital improvement projects
• Special assessments	
• Property tax	
• Sales tax	
• Real estate excise tax	
• Impact mitigation	

Enterprise Funds

These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises.

Major Revenues	Primary Services
• Service (user) charges	• City utilities
• Federal and State grants	• Renton Municipal Airport
• Revenue bonds	• Maplewood Golf Course
• State loans	

Internal Service Funds

These funds are used to account for the goods and services furnished by one city department for another department on a cost reimbursement basis.

Major Revenues	Primary Services
• Charges to other city departments	• Fleet management
• Insurance, health/property liability	

Fiduciary Funds

These funds are used to account for assets held by the City in a trustee capacity.

Major Revenues	Primary Services
• Investment interest	• Fire pension fund

Please refer to the following tables and figures for specific information on the budget, fund groups, and employment history. In table 2-2, we provide details on revenue and expenditure categories.

In table 2-3, we provide sources and amounts of revenue by year from 2001 through 2004. In figure 2-1, we show the budget percentages for each fund type and the General Governmental Fund, by department. In table 2-4, we provide specifics for fund expenditures and in figure 2-2, we graphically present the history of employment for the City of Renton.

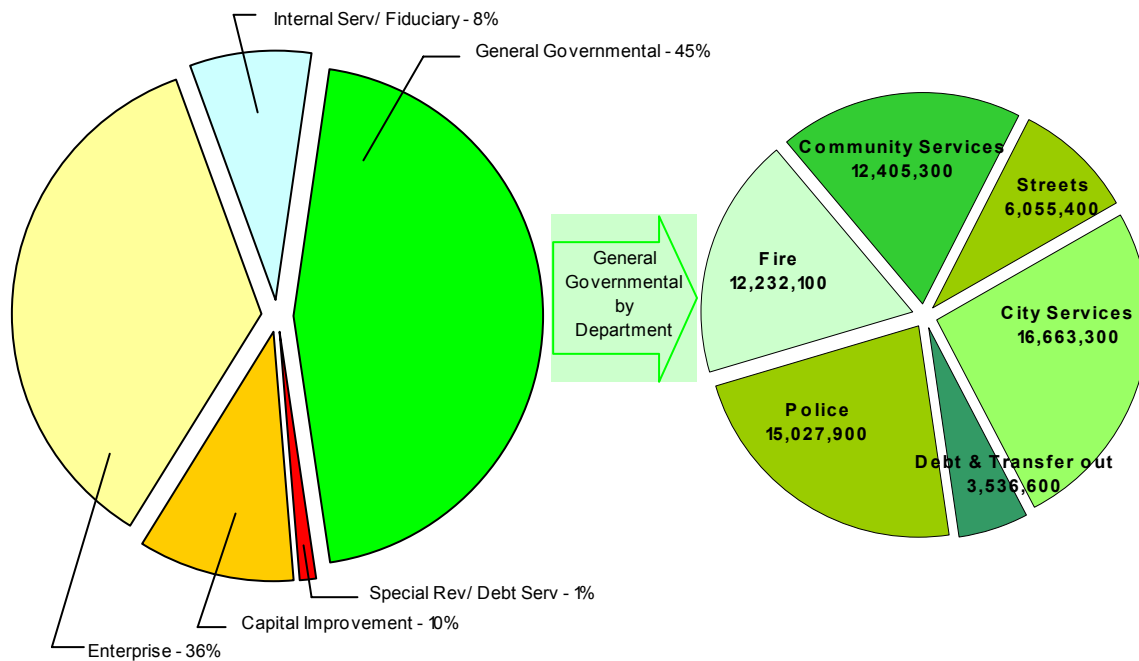
Table 2-2. The Total Budget for 2004

	General Govmt	Special Revenue	Debt Services	Capital Impvmts	Enterprise	Internal Services	Fiduciary	Total
Revenue								
Property Tax	19,395,900		512,600					19,908,500
Sales Tax	17,181,000	130,000						17,311,000
Utility & Natural Gas	9,504,000	35,000						9,539,000
Gambling Excise Tax	2,380,000							2,380,000
Other Taxes	2,580,000			1,000,000				3,580,000
Fees & Permits	1,830,100			1,936,400	31,400			3,797,900
Federal and State Grants	200,000	331,600		2,150,000				2,681,600
Intergov and Interfund Revenue	6,047,500	348,500		350,000	676,700		40,000	7,462,700
Charges for Services	2,932,300			925,000	33,126,200	1,446,000		38,429,500
Other Revenues	2,748,800	73,400	22,400	4,683,200	13,345,600	10,350,500	110,000	31,333,900
Total New Revenue	64,799,600	918,500	535,000	11,044,600	47,179,900	11,796,500	150,000	136,424,100
Use of Prior-Year Revenue	1,191,000	55,500	0	4,064,600	5,878,800	0	232,100	11,422,000
Total Resources	\$65,990,600	\$974,000	\$535,000	\$15,109,200	\$53,058,700	\$11,796,500	\$382,100	\$147,846,100
Expenditures								
Legislative	193,100							193,100
Administrative and Judicial	2,736,900	86,600						2,823,500
Legal Services	1,080,200							1,080,200
Econ Dev, Neigh, Strgic Plng	1,223,900	200,000		150,000				1,573,900
Human Resources & Risk Mgmt	651,100					8,900,200		9,551,300
Finance and Information Serv	3,296,800			1,350,000				4,646,800
Police	15,027,900							15,027,900
Fire	12,232,100							12,232,100
Planning/Building/Public Works	10,158,600			8,460,400	43,119,500	2,340,400		64,078,900
Community Services	12,405,300	331,600		1,151,000	2,072,200			15,960,100
Interfund Transfers	980,500	353,500	10,300	3,760,800	1,881,000			6,986,100
Other City Services	3,378,100				1,674,100	297,400	382,100	5,731,700
Debt Service	2,556,100		518,500		3,540,300			6,614,900
Total Committed Expenditures	65,920,600	971,700	528,800	14,872,200	52,287,100	11,538,000	382,100	146,500,500
Increase to Reserves	70,000	2,300	6,200	237,000	771,600	258,500	0	1,345,600
Total Expenditures	\$65,990,600	\$974,000	\$535,000	\$15,109,200	\$53,058,700	\$11,796,500	\$382,100	\$147,846,100

Table 2-3. Revenue Detail Over Time

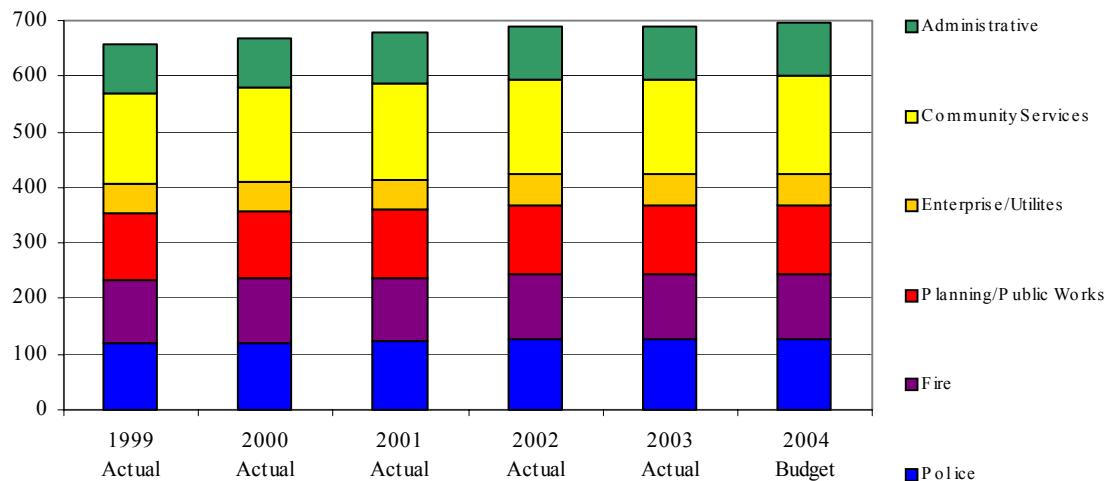
	2001 Actual	2002 Actual	2003 Adj Bdgt	2003 Actual	2004 Budget	Change 2003/2004
Tax Revenues						
Property Taxes	16,776,846	18,381,694	19,541,000	19,352,806	19,908,500	1.9%
Retail Sales and Use Tax	16,724,786	16,431,456	17,055,000	17,334,831	17,653,000	3.5%
Utility Taxes	10,348,682	8,669,865	9,130,000	8,952,000	9,197,000	0.7%
Real Estate Excise Tax	2,895,147	2,709,652	2,305,000	3,104,519	2,311,000	0.3%
Gambling Excise Tax	2,322,136	2,110,861	2,455,000	1,922,211	2,380,000	-3.1%
Other Taxes	1,150,932	1,598,319	1,245,000	1,485,714	1,269,000	1.9%
Total Tax Revenue	50,218,529	49,901,847	51,731,000	52,152,081	52,718,500	1.9%
Operating Revenue						
<i>Licenses and Permits</i>						
Business Licenses and Permits	2,522,223	2,333,878	2,374,400	2,139,911	2,375,300	0.0%
Building Permits	1,528,797	1,883,233	1,345,500	2,129,296	1,394,500	3.6%
Non-Business Licenses/Permits	50,938	43,869	34,000	57,315	28,100	-17.4%
<i>Total Licenses and Permits</i>	<i>4,101,958</i>	<i>4,260,980</i>	<i>3,753,900</i>	<i>4,326,522</i>	<i>3,797,900</i>	<i>1.2%</i>
<i>Intergovernmental Revenue</i>						
Federal Grants	2,145,634	3,934,701	5,492,161	4,912,009	2,338,200	-57.4%
State Shared Revenue	2,309,603	2,391,930	1,989,800	1,758,741	2,091,800	5.1%
Intrgovl Service and Interlocal Grants	2,160,313	1,126,747	1,240,000	1,479,319	1,169,000	-5.7%
<i>Total Intergovernmental Revenue</i>	<i>6,615,550</i>	<i>7,453,378</i>	<i>8,721,961</i>	<i>8,150,069</i>	<i>5,599,000</i>	<i>-35.8%</i>
<i>Charges for Services</i>						
Utility and Environment	28,820,964	30,239,382	30,366,400	31,287,637	31,386,600	3.4%
Recreation	2,407,640	2,475,373	2,357,800	2,470,275	2,969,200	25.9%
Plan Checking Fees	665,777	730,376	550,000	943,892	566,500	3.0%
Planning/Zoning/EIS Fees	512,696	205,960	1,121,000	1,164,803	121,000	-89.2%
Mitigation Fees: Transp, Fire & Parks	1,133,230	1,904,095	950,000	1,237,051	925,000	-2.6%
Other Transportation	52,903	6,476	5,000	5,546	4,900	-2.0%
Other Charges for Services	2,479,733	2,448,584	2,333,100	1,939,938	2,347,000	0.6%
<i>Total Charges for Services</i>	<i>36,072,943</i>	<i>38,010,246</i>	<i>37,683,300</i>	<i>39,049,142</i>	<i>38,320,200</i>	<i>1.7%</i>
Total Operating Revenue	46,790,451	49,724,604	50,159,161	51,525,733	47,717,100	-4.9%
Other Revenues						
Fines and Forfeits	993,093	1,043,199	957,100	991,753	985,000	2.9%
Interest Earnings	3,838,898	1,642,302	1,713,700	2,510,785	1,451,800	-15.3%
Rents/Leases/Concessions	2,365,785	2,473,800	2,395,200	2,442,067	2,446,600	2.1%
Employee Insurance Premiums	5,163,412	5,750,910	6,361,600	6,719,636	7,076,800	11.2%
Intrfund Depart. Service Charges	4,266,798	4,676,755	4,405,200	4,390,232	4,251,900	-3.5%
Other Revenue	2,266,379	2,145,055	2,306,306	2,072,747	1,663,400	-27.9%
Interfund Transfers	24,614,377	33,769,767	11,915,194	12,773,312	18,113,000	52.0%
Total Other Revenue	43,508,742	51,501,788	30,054,300	31,900,532	35,988,500	19.7%
TOTAL NEW REVENUES	\$140,517,722	\$151,128,239	\$131,944,461	\$135,578,346	\$136,424,100	3.4%

Figure 2-1. Fund Groups



General Governmental	65,920,600
Special Revenue	971,700
Debt Service	528,800
Capital Project	14,872,200
Enterprise: Utilities	48,872,400
Airport	805,900
Golf Course	2,608,800
Internal Service	11,538,000
Fiduciary	382,100
Total Committed Expenditures	\$146,500,500

Figure 2-2. Employment History - City of Renton



2004 Changes to Staffing – 8.1 FTE Increase

Community Services Department:

The 1.0 FTE Limited Term Capital Improvement Project Coordinator position for the Parking Garage ended in 2003.

The 1.0 FTE Limited Term Capital Improvement Project Coordinator position for Fire Station 12 will end in February 2004.

The opening of the Aquatics Center in 2004 results in an addition of 10.2 FTE equivalents. All positions added are part time. Positions include the following: pool manager, assistant manager, lifeguards, instructors, concession staff, guest service staff, custodial service staff and others.

Legislative Department:

Part time help decreased by 0.1 FTE

2004 FTE Count

The total authorized FTE count for the City is 696.3 (regular, full-time, and limited term, and part time temporary and intermittent staff).

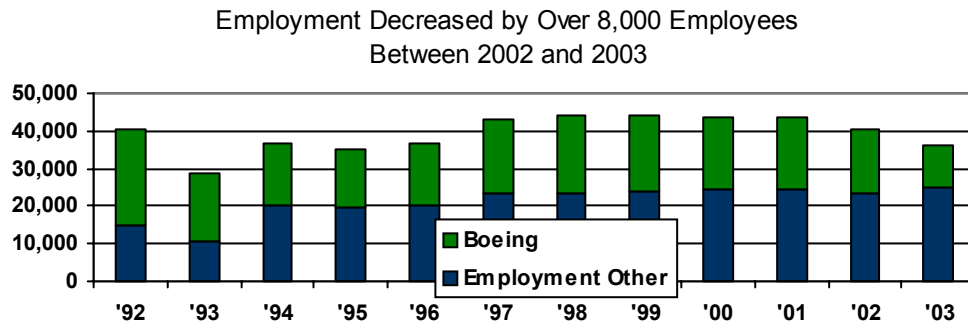
Table 2-4. Expenditure Over Time

	2001 Actual	2002 Actual	2003 Adj Bdgt	2003 Actual	2004 Budget	Change 2003/2004
Salaries and Wages						
Salaries	34,091,564	36,086,856	38,487,378	37,540,681	40,158,000	4.3%
Overtime	1,743,607	1,982,522	1,734,800	1,952,333	1,896,900	9.3%
Total Salaries and Wages	\$35,835,171	\$38,069,378	\$40,222,178	\$39,493,014	\$42,054,900	4.6%
Personnel Benefits						
Retirement/FICA	3,750,360	3,474,202	3,743,500	3,665,760	3,871,200	3.4%
Medical and Employee Insurance	10,343,584	11,574,404	13,306,000	12,976,344	13,758,000	3.4%
Total Personnel Benefits	\$14,093,944	\$15,048,606	\$17,049,500	\$16,642,104	\$17,629,200	3.4%
Supplies						
Operating Supplies/Equipment	\$3,999,179	\$3,781,993	\$4,946,500	\$3,894,536	\$5,051,400	2.1%
Other Services and Charges						
Professional Services	11,120,250	11,179,462	13,586,383	11,698,081	11,853,300	-12.8%
Operating Rentals and Leases	3,280,955	3,225,799	3,440,700	2,660,228	2,968,500	-13.7%
Property/Liability Insurance	2,830,934	2,967,571	3,824,800	3,829,319	3,487,400	-8.8%
Public Utility Services	9,089,589	10,089,982	10,292,000	9,432,968	10,475,900	1.8%
Operating Services and Charges	3,567,617	3,461,667	4,247,875	3,351,695	3,738,000	-12.0%
Total Other Services and Charges	\$29,889,345	\$30,924,481	\$35,391,758	\$30,972,291	\$32,523,100	-8.1%
Intergovernmental Services						
Total Intergovernmental Services	\$4,265,724	\$4,419,324	\$4,683,300	\$4,482,436	\$4,733,400	1.1%
Capital Outlay						
Land, Buildings, and Equipment	6,879,817	11,511,053	23,222,025	15,203,002	2,427,300	-89.5%
Construction	16,687,324	13,273,801	26,811,500	15,996,000	25,150,400	-6.2%
Total Capital Outlay	\$23,567,141	\$24,784,854	\$50,033,525	\$31,199,002	\$27,577,700	-44.9%
Debt Service (Principal and Interest)						
Principal	4,802,196	6,325,459	4,692,200	4,707,131	3,898,100	-16.9%
Interest and Related Debt Costs	2,244,867	3,007,956	3,440,500	3,236,263	2,972,000	-13.6%
Total Debt Service	\$7,047,063	\$9,333,415	\$8,132,700	\$7,943,394	\$6,870,100	-15.5%
Interfund Payments and Transfers	\$18,152,136	\$15,805,956	\$14,070,646	\$12,068,858	\$10,060,700	-28.5%
Total Committed Expenditures	\$136,849,703	\$142,168,007	\$174,530,107	\$146,695,635	\$146,500,500	-16.1%

ECONOMIC OVERVIEW

The adage “when Boeing gets a cold, Renton gets pneumonia” is officially no longer applicable to the City’s fiscal health. While Boeing continues to be very important to the City and to the region, major changes occurred in the late 1990’s to the region and the City that mitigated the overall impact Boeing had on our economy.

Employment within the City of Renton over the past twelve years, as measured by Business License payments, is as follows:



In the early 1990’s when Boeing employment fell, all other revenue fell. Home values decreased, and assessed valuation with new construction actually decreased or remained flat between 1992 and 1996. In 1992 and 1993 Renton was in a recession.

Boeing employment is actually lower today than it was in 1993. Yet, this past year, a record number of homes sold in the City of Renton. Home values are higher than last year and new construction valuation in 2003 was valued at a record \$285 million dollars. The total valuation of all property within the city limits of Renton is now at \$6.3 billion dollars.

Why the Difference? In 1993 Renton embarked on an assertive economic development program. This program has many aspects. The City changed the way we issued building permits – becoming a model for many other cities and an example the State uses to illustrate how cities can be more effective in encouraging private enterprise.

The State’s tax system, given the numerous Initiatives in the 1990’s, emphasizes sales taxes over other sources of revenue. The City of Renton has to work with that constraint in order to grow its economy. To that end, the City aggressively sought regional retail businesses. We have IKEA, Wal Mart, Sam’s Club, and Fry’s Electronics stores. We have also re-zoned property that Boeing is selling on our northern boundary, and stated it must be used for commercial/retail purposes.

At the Same Time the Economic Base Has Changed. As will be illustrated, all this effort has brought forth major increases in our property and sales tax receipts. However, as these changes occur, there are other major changes in our economic base. A State Initiative, I-747, limits our annual general property tax levy to one percent of the previous year’s total, plus new construction. This is not a major issue in times of low inflation, as the City had already limited its base to reflect salary agreements. However, when inflation increases again, this will have a major impact on our revenue.

Also in the past few years, the State exempted sales tax on manufacturing goods and activities. This lowers the City's sales tax collections by \$1 million per year. Added to that, the State agreed to eliminate the Motor Vehicle Excise Tax, which created an annual loss of over \$600,000.

Another voter- approved Initiative eliminated the Vehicle License Fee. This \$15 fee was on each vehicle licensed. The fee generated \$350,000 to \$450,000 annually and was directed entirely to the maintenance of the city's streets.

The final actual change was the State's decision to permit Boeing and other large organizations to purchase their electricity on the open market. This practice, known as "wheeling," ensures that businesses are getting the lowest cost possible for their electricity. The electricity is then sent through the wires owned by Puget Sound Energy. We applaud efforts to keep costs low for businesses. However, by doing this, the State of Washington's Utilities and Transportation Commission (WUTC) also exempted these businesses from paying the utility tax on this commodity. This change impacted the city's general governmental revenues by over \$400,000. The companies have both purchased electricity on the open market, and switched their use from natural gas to electricity. Thus, we have lost in both areas. According to the State's Department of Revenue, we will lose over \$100,000 annually in every circumstance from the natural gas utility tax switch.

The Future. Washington cities must operate within this fiscal environment. Another Initiative to lower property taxes has been filed. This effort would lower the cities and all other junior taxing districts, exempting school districts, by 25 percent. This would be a loss to general governmental revenues of \$5.2 million. These are the revenues that pay for public safety and other basic services. These are not monies used to meet the utilities and other special revenues the City has that are very limited in their uses. Whether this Initiative passes or not, constant pressure remains on the City to maintain services at the lowest cost possible.

To that end, the City continues its economic development efforts. In 2003 the City worked with the Boeing Company to define the land use of property that Boeing is vacating in Renton. Through that process, there are now 50 acres of land zoned retail and mixed use at the northern boundary of our city. This adds real value to property that was once parking lots.

The agreement with Boeing spans over 150 acres and articulates a vision of the City for the property at the south end of Lake Washington; ensures that space will be used for the highest use possible to generate value for both Boeing and the City; and will create good jobs and purposes for the residents. The agreement also requires the City to invest nearly \$33 million dollars for infrastructure as the property is vacated.

Summary. The State economic base will continue to change. Renton, however, will continue to be a growing voice in the Puget Sound. Renton had the fastest growing housing market in King County over the past year. In Renton, land is still available less than 15 minutes from downtown Seattle, in a geographic area where all three of the area's transportation systems meet. We have

brought to the City large regional retailers – IKEA and Fry’s, in particular, exist nowhere else in the Puget Sound area. Finally, the City is embarking on a total reshaping of its destiny with the new Boeing agreement that will change the use of that area over the next 50 years.

The following are highlights of our General Governmental and Enterprise revenues for 2004. Please refer to the Revenue Manual for details of every revenue source over the past few years, and our assumptions for the future.

General Governmental Revenues.

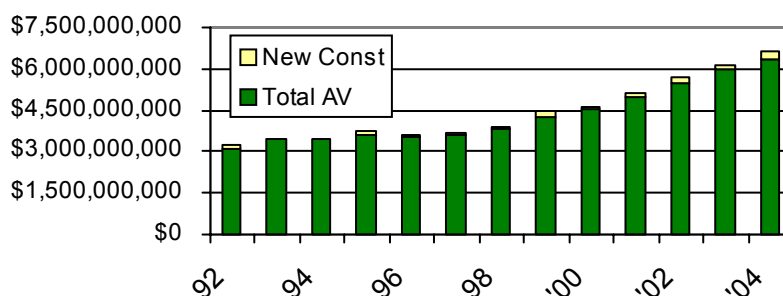
Most of the City’s general services, such as police, fire, parks, libraries, street, building, and economic development are paid from general-governmental type of revenues. These include, but are not limited to, property, sales and utility taxes, charges for services and other miscellaneous fees.

Property Taxes.

Property tax and assessed valuation are very important to the City of Renton. Due to a voter-approved Initiative, the City can increase its property tax levy by only one-percent, plus new construction and annexations. This means that without new construction, in particular, the City can increase its levy by only \$200,000 in 2005. While this is a significant amount of money for the average individual, when this amount is spread across the \$6.3 billion in assessed valuation the amount of the increase is less than

one-third of one cent for each \$1,000 of Assessed Valuation. The average home value in Renton is approximately \$230,000. This \$200,000 increase means that a homeowner pays \$7.30 more a year.

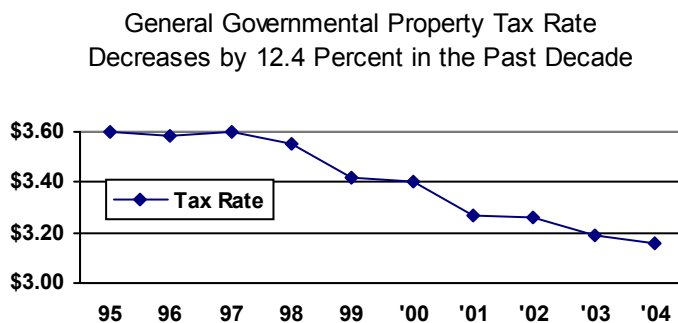
Assessed Valuation Grew by 6.5% Between 2003 and 2004



Further, \$200,000 a year will not cover the annual salary increases for police officers. Thus, we need new construction, plus growth in all other areas of revenue to pay for ongoing services.

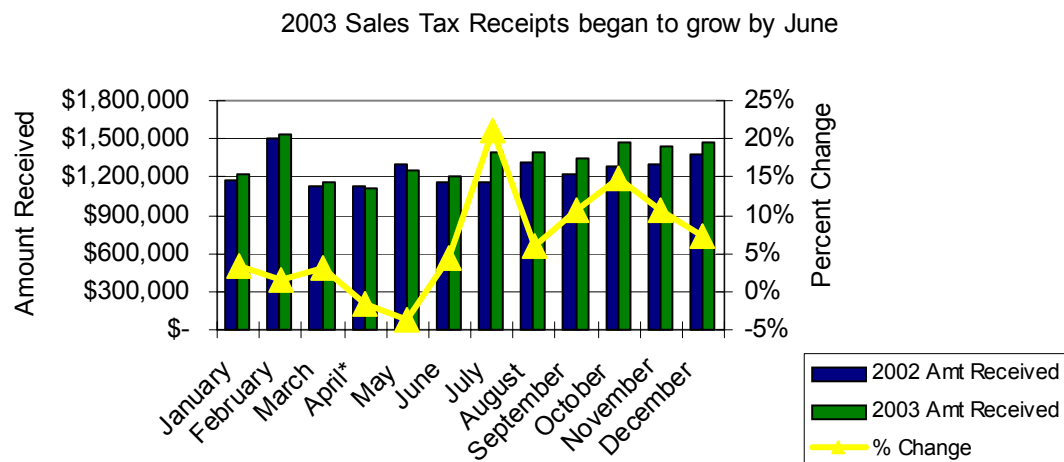
Property tax comprises approximately 30 percent of our total general governmental revenue sources. In 2004, our total levy will be \$20 million. Of this total over \$900,000 is generated from \$285 million of new construction. This was a record year. This graph illustrates our assessed valuation has grown from \$3.1 million at the beginning of the last recession to over \$6.3 million in 2004.

Since 1995, the City chose to lower its tax rate. Our legal property tax rate in 1995 was \$3.60. In 1998, in order to encourage economic development, the City decided to impose a lower levy to lower the tax rate. This, combined with the Statewide Initiative, has lowered the tax rate from \$3.60 to \$3.16 in the past decade.



Sales Taxes.

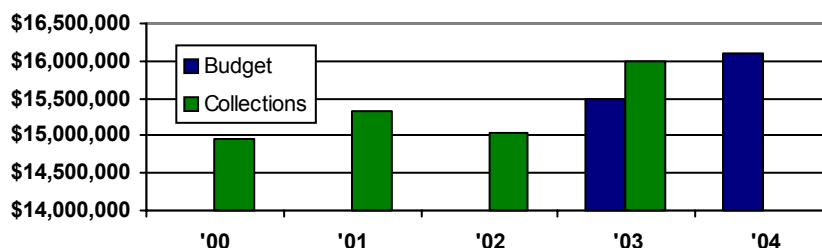
Sales tax receipts comprise approximately 24 percent of resources for general governmental purposes. Renton's sales tax receipts mirrored the national economy in 2003. We receive sales tax collections two months after they are paid at the source. Thus, there is a two-month lag between collections and receipts. Between November 2002 and May 2003, our total receipts grew by only 1.5 percent. However, beginning in June, collections began to grow substantially and by the end of the year, our total receipts were 6.6 percent ahead of last year.



The monthly receipts tell the story of the change through 2003. Between January and May receipts, our collections grew only by no more than 1.5 percent in any given month. In fact, during two months receipts were lower than receipts in 2002. In June, collections were nearly 5 percent higher. The July receipts – May collections were actually 20 percent higher. The remainder of the year's sales taxes grew each month over the previous year's receipts.

This growth rate is not expected to continue. We will lose one major sales tax payer in 2004. While this loss will be offset by gains from Sam's Club, it also means that the revenue generated from Sam's Club will not be a net gain for Renton. Further, the 2003 sales tax from construction activity comprised 13 percent of our total collections - \$2.1 million of the \$16 million generated. This was nearly 12 percent higher than last year; reflected the construction of not only housing development but also the building of two major new commercial enterprises: Sam's Club and the Paccar building. We do expect to see this again once construction begins on the fifty acres of Boeing property. However, that will not begin until late 2004 or 2005. Overall, we expect to have a good year in sales tax receipts, but one that reflects more closely the actuals of 2003.

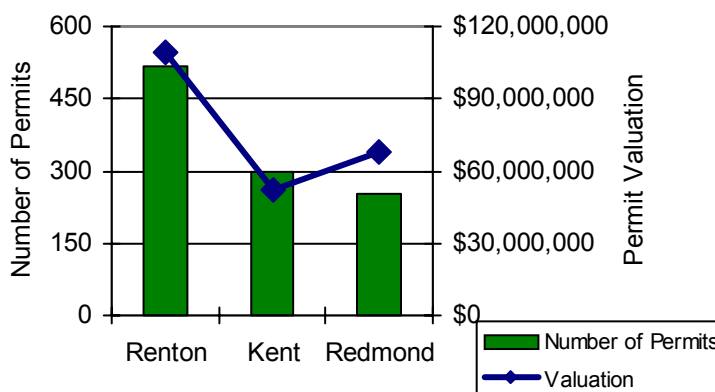
Sales Tax Collections were 3.2 Percent Above Estimates in 2003



Building Activity

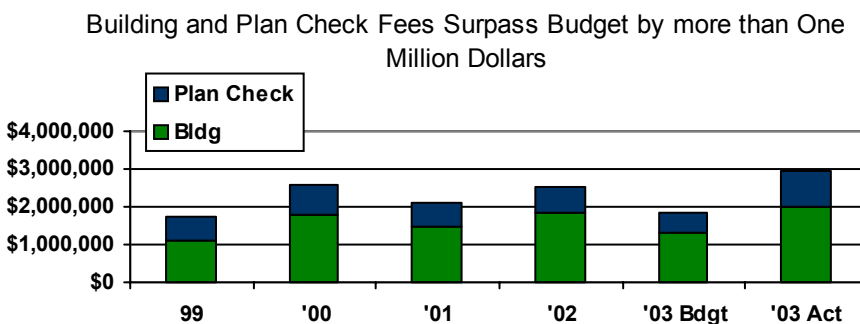
Building activity generates various types of revenue. As noted, sales taxes are generated from building activity. Building and plan check fees are imposed on construction activities. When homes and commercial production occurs within the City, the City also receives revenue from mitigation fees and connection related charges in the utilities area.

Renton Issues 519 SF Permits in 2003



Renton has had a phenomenal few years in the area of residential construction. Between 1999 and 2003, residential construction averaged 13.3 units per 1,000 of population in Renton as compared to 7.1 units region wide. The following graph shows the comparison of single family homes in Renton, Kent, and Redmond. We have been tracking these same cities for the past two years based on the proximity and the similarity in cities.

Renton issued 519 single family housing permits in 2003, as compared to Kent's 298, and Redmond's 251. Based on the valuation, Renton's average single family house permit was for a \$210,000 home. In Kent the valuation was \$175,500. Redmond's total valuation of \$67.5 million translated into an average \$268,000 home.



The real story here is the number of single-family housing permits. Renton and Redmond also issued 33 and 22 permits, respectively, for apartments and condos for total housing units of 135 and 161. Kent's numbers identify no permits for multi-housing units.

In 2003, over \$2.9 million was generated from Building and Plan Check fees. Our budget for these two types of revenue was just \$1.8 million. This total represented 4.6 percent of our total general governmental resources.

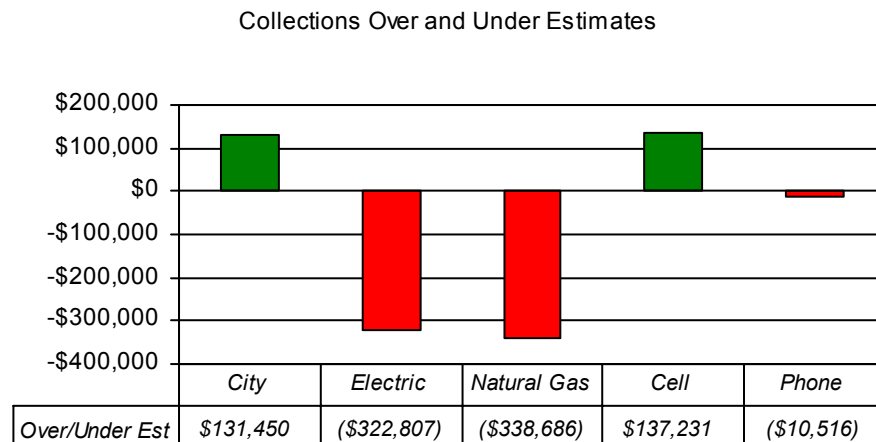
Utility Taxes.

On the utilities of water, sewer, solid waste, electric, natural gas, and all phone usage, the city imposes a six percent (6%) utility tax on the total cost. In 2003 we collected nearly \$9 million from these combined sources.

However, there were some challenges in this amount. The actual collected was 4 percent lower than we expected. As stated earlier, the real issues are found in the electric and natural gas utilities. The following illustrates the estimates and the actuals for 2003:

	03 Actual	03 Budget	% Difference
Electricity	\$2,977,193	\$3,300,000	(10%)
Natural Gas	836,314	1,175,000	(40%)
Transfer Station	387,710	425,000	(9%)
Cable TV	595,988	530,000	19%
Telephone	1,289,484	1,300,000	(1%)
Cellular	1,137,231	1,000,000	14%
City Utilities	<u>1,856,450</u>	<u>1,725,000</u>	<u>8%</u>
Total Utilities	\$9,080,370	\$9,455,000	(4%)

The gains and losses by major type is as follows:



The 2004 estimates reflect 2003 estimates. This means the 2004 natural gas and electric utility estimates are overstated by \$600,000. This will be corrected in 2005.

Other Funds.

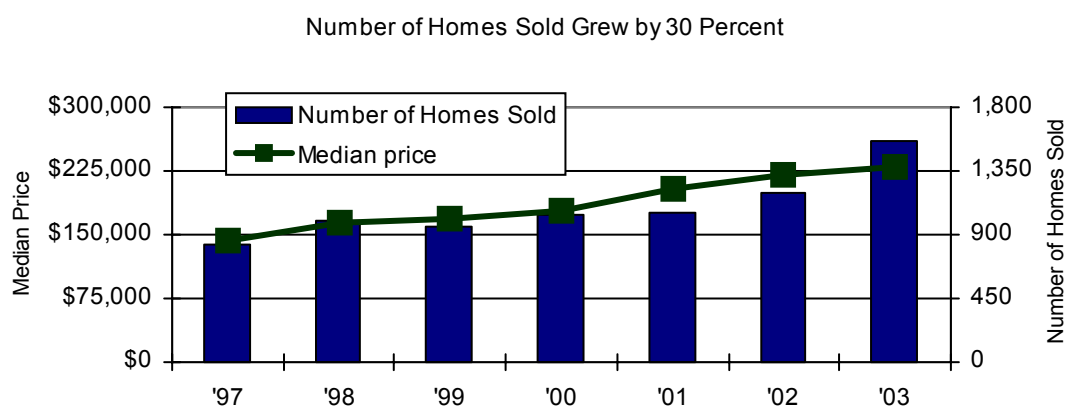
New construction generates several different kinds of revenue. As illustrated, there were over 500 single-family permits issued. Each home pays a park and fire mitigation fee as well as connection charges for water/sewer services. These revenue sources are also significantly higher than budget. The mitigation fees generated \$848,280 on estimates of \$450,000. All of this revenue is used for one-time capital investment. In 2004 these are budgeted at approximately \$450,000.

Connection fees for all pipe utilities were expected to generate \$1 million dollars. The actual revenue from these sources of revenue was \$1,200,000. This revenue is used to offset the City's infrastructure costs.

Real Estate Valuation and Changes.

Another aspect of the local economy is the valuation of real estate. There is an interesting balance between affordable homes and ensuring the valuation of the property within a City continues to increase; or, at least hold its value. Over the past six years we have been tracking all home sales within the City of Renton.

The following graph illustrates how property value has changed over that period.



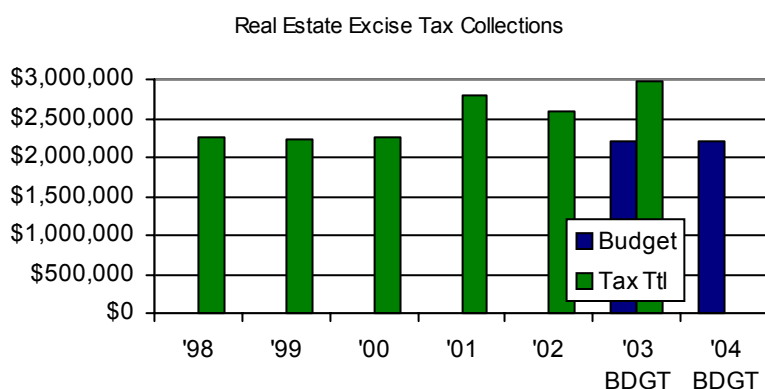
In 2003 there were nearly 1,500 homes sold within our geographic boundaries. This is 30 percent more than sold in 2002.

The table below illustrates the number of homes sold in each price range. In 2003 there were 102 homes sold with a price tag of \$400,000 or more. This is double the number in 2002.

	<u>97</u>	<u>98</u>	<u>99</u>	<u>00</u>	<u>01</u>	<u>02</u>	<u>03</u>
10K +	145	128	133	152	68	59	53
100K +	549	613	550	522	429	437	486
200K +	95	189	200	259	389	470	649
300K +	30	38	45	78	117	170	210
400K +	4	25	28	30	45	60	102
Total	823	993	956	1041	1048	1196	1500

On each property sold within the City limits, there is a City excise tax of one-half of one percent of its selling price. State law dictates this revenue must be used for one-time capital items or the debt service for capital expenditures. The following graph demonstrates our collections and estimates.

We tend to be conservative on the estimate of this source of revenue. Since it can be used for only capital items, when we receive the monies from this source it does not have a major impact on our operations or addressing the needs.



ENTERPRISE FUNDS

The City operates four utilities: water, sewer, surface water, and solid waste. These are divided into two lines of business: water/sewer and solid waste. These two must operate like a business. They must generate income to cover their expenditures. They pay for some services they receive from the General Fund. However, short of that, none of their revenue comes to the general governmental services.

These businesses generate most of their income from rates charged for services.

Water, sewer, surface water, and sewer treatment all have a monthly fee charged to all users. The rates are as follows:

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Water	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	10.5	10.82
Water Usage/1000 cf							\$17.60	\$17.60	\$18.13
Wastewater	12.29	12.29	12.29	12.29	12.29	12.29	12.29	12.66	13.04
Surface Water	5.23	5.23	5.23	5.23	5.23	5.39	5.39	5.39	5.39
K.C. Sewer Treatment	19.10	19.10	19.10	19.10	19.50	19.75	23.40	23.40	23.40
Solid Waste	10.45	11.5	11.95	12.55	12.8	13.44	13.44	13.44	13.44
Total	\$57.57	\$58.62	\$59.07	\$59.67	\$60.32	\$61.37	\$82.62	\$82.99	\$84.21

As illustrated, rates have not increased much over the past nine years. In fact, the rates the City charges for water and sewer did not change from 1996 through 2002. Surface Water has had only one increase in the same period.

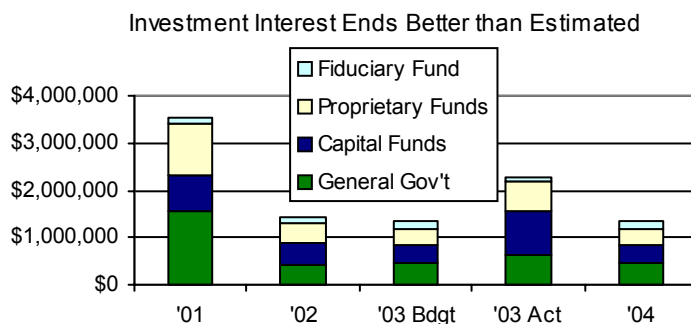
Garbage rates increased with the new contract the City has with the private company that picks up the waste. This, however, has remained consistent for the past four years.

King County is responsible for sewer treatment work. This is the area with the largest increases over the past nine years. The City only does the billing for the County. We have no authority for setting the rates.

Interest Earnings.

The City has an average daily investment portfolio of approximately \$85 million. We expect that to decrease a bit in 2004 because we have depleted large amounts of cash for large capital projects. Fire Station 12, the Parking Garage, Swimming Pool, and the Pavilion Building are all nearly complete, and used over \$12 million of cash reserves that the city set aside for these projects over the past eight years.

The actual principal balance is not a major issue in our ability to generate investment earnings. The investment rates are our real challenge. We actually generated more in 2003 than we had originally estimated. Interest rates are slowly increasing, but are not approaching the level in 2002. For 2004, we kept our estimates at essentially 2003 levels.



CONCLUSION

Generally, we believe that in Renton, at least, the 2004 economy will be better than the 2003 economy. We have major economic development events occurring within our City. Housing activity will continue. We know there is development interest in the first 50 acres of vacant land on the Boeing property. One of our best known retailers, McLendon's Hardware Store, will move from their restricted downtown location to a 100,000 square foot building on our major arterial – Rainier Way. IKEA and Fry's Electronics continue to anchor our northern and southern boundaries.

Our trials are created from external forces. The utility tax change and the possible Property Tax Initiative create significant

challenges for us. As we continue to build on our economic base, that base is eroded through Initiatives and State actions. We have met the earlier constraints on our revenues.

The next Property Tax Initiative, if it passes, will force us into very difficult choices. This Initiative impacts general governmental activities: police, fire, parks, library, streets, and other basic services. It does not impact the total budget, it impacts about 50 percent of our budget. This loss translates into an 8 percent loss of revenue for the basic services. This is a very serious reduction of resources for basic services.

As always, the City of Renton is dedicated to doing the most with the resources we have. We have been able to market the City and watch revenues grow even with the reductions we have had to date. We will do the same in the future.